



The Advisor

for our Active members

A semi-annual publication of the Massachusetts Teachers' Retirement Board as a service to its members

Winter 2005

A MAJOR CHANGE OF SIGNIFICANT BENEFIT TO OUR MEMBERS

Option C survivor benefits become more attractive

Member retirement benefits under Options B and C are also increased

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Governor Romney and the Legislature set the stage for this significant benefit change when they approved legislation as part of the Commonwealth's FY2005 budget allowing the state's actuary to use a new mortality table and interest rate in the calculation of retirement options. The net result of this change: the Option C survivor benefit election becomes more financially viable for our members.

Prior to the change, the overwhelming majority of our members (better than 80 percent) elected Option A when they retired. Option A provides the maximum benefit amount to members; however, upon the retiree's death, no survivor benefits are provided. The difference between the amount of the higher Option A benefit and the lower Option C benefit was usually 20-30 percent, depending on the age of the member and his beneficiary. This difference in benefits dis-

couraged certain members from selecting Option C (less than 10 percent selected the survivor protection option). With the new mortality tables, the difference in benefits has been reduced to about 9-11 percent of Option A benefits. This change is significant, and one which the Board has steadfastly advocated for during the past few legislative sessions.

In addition to the change in Option C benefits, the Option B benefits have also been increased. If a member selects Option B, her retirement allowance will now be approximately one percent less than the Option A benefit. Prior to the legislative change, the Option B allowance was about 3-5 percent less than Option A.

The Public Employee Retirement Administration Commission (PERAC) in late December announced that the new mortality tables would apply to those members whose

retirement benefits commenced on or after July 1, 2004. Once we complete the necessary changes to our computer system (projected to be complete this summer), we will be adjusting retirement benefits for those members who elected Option B and C on or after July 1, 2004, retroactive to their date of retirement. ■

An overview of the three retirement Options

Option	Benefit amount	Survivor benefit
A	Maximum allowance	None
B	BEFORE July 1, 2004: About 3-5% less than Option A amount ON or AFTER July 1, 2004: About 1% less than Option A amount	One-time, lump-sum payment of balance, if any, remaining in member's annuity savings account. <i>NOTE: There are no restrictions on who or how many individuals or entities may be named as beneficiary.</i>
C	BEFORE July 1, 2004: About 20-30% less than Option A amount ON or AFTER July 1, 2004: About 9-11% less than Option A amount	Monthly benefits paid to a survivor. <i>NOTE: Beneficiary must be the member's parent, child, sibling, spouse or former spouse who has not remarried.</i>





Dr. David P. Driscoll
Commissioner of Education
and Chairman,
Massachusetts Teachers'
Retirement Board

FROM THE CHAIRMAN

The MTRB sets a record— 3,500 educators retired in 2004

This past year, a record number of educators—over 3,500—retired from the Massachusetts Teachers' Retirement System. These retirements are nearly double the retirements from the 2000 school year. We expect to break more records as over 24,000 educators get set to retire within the next five years. The largest class of educators—5,000 members—will retire at the end of the 2006 school year. In an effort to help prepare those members who are retiring at the end of this school year we have scheduled ten **Ready for Retirement** seminars at locations throughout the state (*page 3*). Last year, these seminars were well received by the membership.

I am pleased to report that Governor Romney and the Legislature approved an initiative the Board has long supported: updating the retirement system's mortality tables. This change is one of the most significant benefit enhancements for our membership in the last ten years (*page 1*).

For this legislative session, the Board's top legislative priorities are increasing the retirement base on which a cost-of-living-adjustment (COLA) is granted, and reducing the contribution rate for new employees (*page 8*). We look forward to discussing these issues with policymakers and stakeholders over the next several months.

We continue to appreciate your patience as we move through this unprecedented wave of retirements. We remain committed to quality service for all of our members and, as always, your feedback on this newsletter, our retirement seminars and our delivery of services is greatly appreciated.

Best wishes,

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Stay up to date on retirement issues—

Have retirement updates delivered right to your desktop
when you **register to receive MTRB M@il!**

More than 19,000 active and retired members and retirees have now signed up. Just give us your e-mail address and you'll receive advance notice of upcoming seminars, important announcements and retirement news in quarterly updates. It's easy!

- 1) Go to **mass.gov/mtrb**.
- 2) Click on **Register to Receive MTRB M@il!**
- 3) Complete the simple online form with your MTRB member status (active), name, MTRB member number (as shown on your Annual Statement) and your e-mail address.
- 4) Watch your e-mail for quarterly updates!

New e-mail address? No problem—just send your old and new addresses to us at **geninfo@trb.state.ma.us** and we'll update our records so that you don't miss any messages from us.

Join us at an upcoming seminar— whether you're retiring this year or 15 years from now!

Choose from our two most popular seminar presentations—

■ **Ready for Retirement**

If you're **retiring in 2005**, this seminar is for you!

Ready for Retirement is an optional, free, two-hour program (6–8 p.m.) for members retiring in 2005. We're going on the road to reach out to our soon-to-be retirees because we anticipate a substantial increase in the number of retirements this season, and this seminar will give you the best opportunity to meet the MTRB staff and learn about the most recent changes that may affect your retirement.

Topics include:

- the new retirement application process (*see page 6*), including our **new online retirement benefit estimator**, and
 - the new actuarial tables used to calculate benefits under Options B and C (*page 1*).
- | | |
|---|--|
| <input type="checkbox"/> Taunton , Tuesday, March 1
Taunton High School | <input type="checkbox"/> Topsfield , Tuesday, March 15
Masconomet Regional Middle School |
| <input type="checkbox"/> Holyoke , Wednesday, March 2
Holyoke High School | <input type="checkbox"/> Auburn , Monday, March 21
Auburn High School |
| <input type="checkbox"/> Medford , Thursday, March 3
McGlynn School | <input type="checkbox"/> Marlboro , Wednesday, March 23
Marlboro Middle and
Intermediate School |
| <input type="checkbox"/> Lawrence , Tuesday, March 8
South Lawrence East School | <input type="checkbox"/> Barnstable , Wednesday, March 23
Barnstable High School |
| <input type="checkbox"/> Pittsfield , Thursday, March 10
Pittsfield High School | <input type="checkbox"/> Braintree , Tuesday, March 29
Braintree High School |

■ **The Next Chapter**

This popular all-day seminar covers the basics for Massachusetts educators who are **5 to 15 years from retirement**

The Next Chapter program is an all day, comprehensive retirement planning program for members who are 5 to 15 years away from retirement, but all interested members are welcome. Topics include transitioning to retirement, financial planning, estate planning, Social Security and Medicare benefits, and your MTRS benefits.

- | | |
|--|---|
| <input type="checkbox"/> Sturbridge , Saturday, April 23
Sturbridge Host Hotel | <input type="checkbox"/> Bridgewater , Saturday, April 30
Bridgewater State College |
|--|---|

**Online
preregistration
is required
for ALL
programs.**

To register and
obtain more
information, visit our
web site
at **mass.gov/mtrb**.
Please register early
as space is limited.





Our Massachusetts Tea

An update on who we are, retirement t

A profile of our membership as of January 1, 2004

Some statistics of interest—

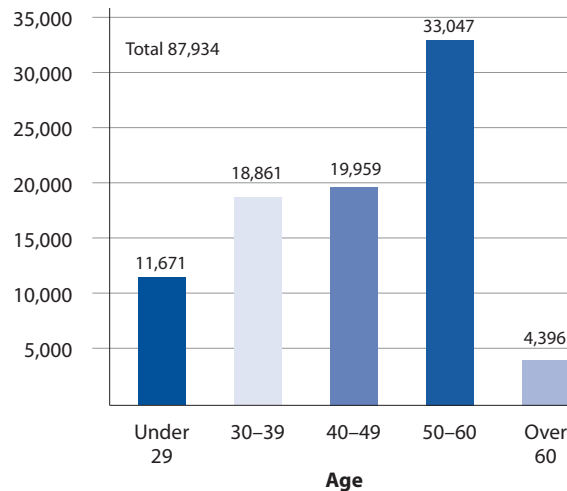
ACTIVE MEMBERS

- Average **salary** \$51,810
- Average **age** 45 years
- Average **service** . 14.3 years
- Total member compensation .. \$4.5 billion
- Employee contributions.. \$433 million

RETIRED MEMBERS

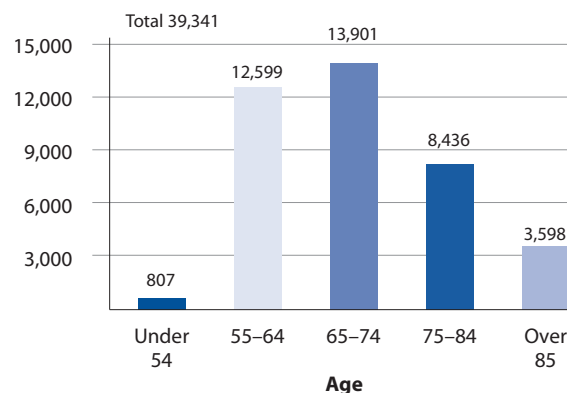
- Average **annual benefit** \$27,079
- Average **age** 70.4 years
- Total benefits paid .. \$1.06 billion

Source: 2004 Actuarial Valuation, Massachusetts Teachers' Retirement System



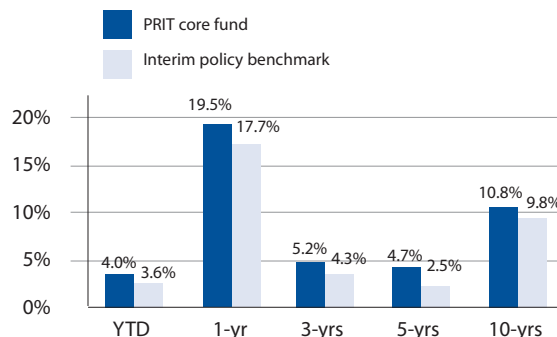
Our active members, by age

The baby boomers are here—and retiring in record numbers.



Our retired members, by age

This population has never been greater, with the number of older retirees continuing to grow.



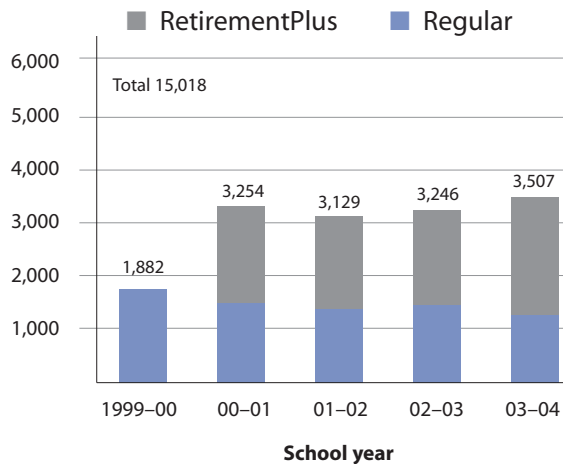
Core performance comparison

The Legislature has set 8.25 percent as the pension fund's long-term rate of return target. The system has averaged 10.8 percent over the past 10 years, and **10.84 percent** since its inception in January 1985.

Teachers' Retirement System:

Trends and our current funding status

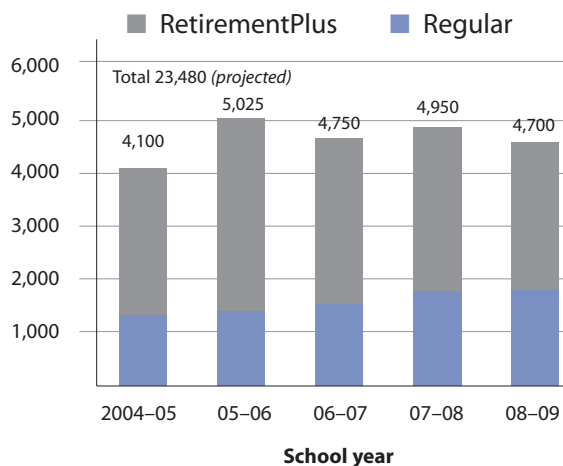
Recent and projected retirement statistics, and our funding status



RetirementPlus and regular retirements—

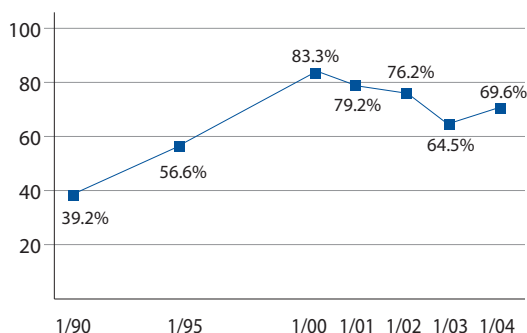
The last five years...

In the last five years, more than 15,000 members retired under the regular and RetirementPlus plans.



...and the next five years

In the next five years, we project that approximately 23,500 members will retire—an increase of 57 percent in just five years.



The MTRS' funded ratio

Over the last 13 years, the system's funding ratio has increased by 75 percent.

The asset allocation of the \$32.64 billion Pension Reserves Investment Trust (PRIT) Fund (State and Teachers' Retirement Systems assets) as of June 30, 2004:

- Domestic equities 39%
- International equities 16.3%
- Emerging markets 5.5%
- Fixed income 18%
- High yield debt 7.0%
- Real estate 5.6%
- Timber 2.9%
- Alternative investments 5.7%

To learn more about how the System's assets are invested, visit www.mapension.com.



SIMPLIFY, SIMPLIFY, SIMPLIFY

Our new retirement application combines several forms into one, making the process easier for **everyone!**

To handle the record retirement volume, we've streamlined our processes *and* forms, and added an easy-to-use **online retirement benefit estimator!**

In the new process, members are required to select their retirement option—A, B or C—at the same time they complete the retirement application.

Plus, we've rolled four forms into one!

As part of our ongoing effort to streamline our procedures to process the ever-increasing number of retirements, we have changed the retirement application form and the retirement process. The new form will require the member both to elect their desired retirement option (A, B, or C) **and** to submit tax and direct deposit information at the time they submit the initial retirement application to the MTRB. This change is meant to help speed the benefit calculation process as well as ensure compliance with Massachusetts General Laws, Chapter 32.

What does this mean for you? And us?

The information you are asked to supply on the retirement application (for both regular and RetirementPlus retirees) will not change significantly. What is most important to understand is that we are **not** going to accept the “old,” green-printed version of our retirement applications for members retiring **on or after June 30, 2005**. The new

application is available on our web site at **mass.gov/mtrb**, from the “Begin the retirement application process” link.

Members who are retiring before June 30, 2005, however, must use the “old” application form, which is **not** available in downloadable format. To obtain this application, simply call our Boston office at 617-878-2890 and we will gladly mail it to you.

We will continue to take new steps to ensure we are able to meet our obligation to retire thousands of our members in a timely and accurate manner. ■

NEW!
Estimate your benefits
with our
ONLINE
retirement benefit
estimator!

IF YOU'RE ALSO ELIGIBLE TO RECEIVE SOCIAL SECURITY...

Things you need to know about the Windfall Elimination Provision and the Government Pension Offset

Many people do not know about the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO) and experience the unpleasant surprise of learning that their retirement income from Social Security may be sharply reduced at a time when it is too late to adjust for it. The WEP and GPO are federal laws that reduce the Social Security benefits payable to retirees of public pension plans who do not participate in the Social Security system. As you probably know, Massachusetts is one of those of “non-Social Security” states.

This means that you, as a member of Massachusetts Teachers' Retirement System (MTRS), paid into our system instead of Social Security; you did not earn any Social Security “credits” or “quarters” for your MTRS contributions or service. However, you may have earned Social Security credits through other employment. If you are eligible for Social Security benefits, on either your own work history or that of your spouse (if applicable), you may be subject to the WEP and GPO. To learn more about WEP and GPO

The interest rate on creditable service purchases will change July 1, 2005

The higher interest rate takes effect July 1, 2005, but depending on when your past service was rendered, you may actually pay **less** if you wait until after July 1 to buy

In July 2004, the Massachusetts Legislature passed two bills, Chapters 279 and 280 of the Acts of 2004 that will increase the rate of interest charged for the purchasing of creditable service. The effective date of the interest rate increase is July 1, 2005. Accordingly, MTRS members who wish to have their service purchases calculated using the current, lower interest rate must submit their service purchase applications, documenting their previous service time and earnings, to the MTRB by June 30, 2005. Service purchase application forms and/or service documentation instructions can be obtained by contacting our office or by downloading them from our web site, at mass.gov/mtrb.

This new legislation increases the annual interest rate that is charged on the calculation of service purchases. The new rate is the equivalent of one half of the assumed actuarial rate of investment interest the retirement fund is expected to earn—currently 8.25 percent. Thus, beginning July 1, 2005, all service purchases will be calculated using 4.125 percent as the annual rate of interest charged. Currently, the annual interest rate charged for service purchases is the same as the regular interest rate earned on a member's annuity savings account.

Historically, the annual interest rates have been as low as they are this year (0.6 percent) and as high as 9.5 percent in 1983. The interest rate has averaged 4.3 percent since 1970. Because of the annual fluctuation in interest rates, this rate change will impact the cost of service purchases for individual members differently, depending on when their service was rendered.

The overall cost impact on service purchases resulting from the new interest rate is still being studied. In general, however, the cost to purchase service rendered in the 1960s and 1970s (and to some degree in the early 1980s) will not be greatly affected by the new rate as the annual interest rates in the 1970s, 1980s and early 1990s were greater than the new interest rate of 4.125 percent. In fact, for members with service rendered during those decades, the purchase cost may actually be **lower** in the short term. However, it is important to note that after June 30, 2005, the new interest rate will increase the cost of purchasing service for members who defer making payment of their initial invoice for service purchases, as the higher rate of 4.125 percent—versus the current rate of 0.6 percent—will be applied to deferred payments.

For more information, please visit us at mass.gov/mtrb. ■

WEP and GPO Continued from previous page

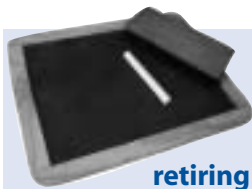
and how it may affect you visit our web site at mass.gov/mtrb.

We are often asked, "What are the chances of Congress changing the WEP and GPO?" Pretty slim, unless these provisions are part of a larger Social Security solvency initiative. Last year, the House Ways and Means Social Security Subcommittee held a hearing on a bill that would replace WEP with a formula that would more accurately reflect a person's level of participation in Social Security, but it did not go far.

Several other bills have been introduced that would reduce or eliminate WEP and GPO. House Resolution 594 had a majority of the U.S. House members as cosponsors, however, the Legislative leadership in the House, concerned with the price tag associated with repealing WEP and GPO—\$61 billion over 10 years—refused to allow the bill to be voted on.

We hope this information will help you understand the WEP and GPO and allow you to make the necessary plans for your future. ■

The MTRB Advisor is written and produced by the Massachusetts Teachers' Retirement System. We welcome letters from our readers and encourage you to send your comments to:
Advisor
Massachusetts Teachers' Retirement Board
69 Canal Street, 3rd Floor
Boston, MA 02114-2006
Or fax your letter to us at 617-727-6797.



What's new!

**Members are
retiring in record numbers 2**

And the trend will continue through 2009

Come to one of our spring seminars! 3

*Register to attend a free seminar after work,
or spend a day with retirement experts!*

**We've implemented
a new retirement process—
and an ONLINE ESTIMATOR, too! 6**

*New, easier process was necessitated by
the great increase in the number of retirements*

And more!



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MTRB PRIORITIES FOR 2005-2006 LEGISLATIVE SESSION

MTRB seeking reduction in 11% employee contributions and COLA base increase

Massachusetts Teachers' Retirement Board

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mass.gov/mtrb



The MTRB has filed a comprehensive retirement reform initiative entitled *An Act Relative to the Recruitment, Retention and Portability of Teachers in the Commonwealth*.

The legislation would:

- **Reduce** the employee contribution rate for new members and those members who elected into RetirementPlus from 11 percent to 8.5 percent of salary.
- **Increase** the amount of interest that is credited to a member's annuity account, to one-half of the actuarial assumed rate of investment return of the state and teachers' retirement system (approximate interest would be 4.125 percent).
- **Reduce** the vesting for retirement benefits for members from 10 years to 5 years.
- **Amend** the definition of regular compensation in order to clarify the exclusion of temporary or nonpermanent salary enhancements or augmentations from pensionable earnings.

Increasing the COLA base: Results of study expected by early spring

Today, the base on which a cost-of-living adjustment (COLA) is calculated is \$12,000 and the maximum benefit increase is capped at \$360 per year. The Legislature, as part of the FY2005 budget, authorized the Public Employee Retirement Administration

Commission (PERAC), in consultation with the MTRB and others, to evaluate the costs associated with increasing the COLA base from \$12,000 to \$22,000 in \$1,000 increments.

We have been working closely with state officials and retiree advocates on increasing the retirement base on which COLAs are granted. Within the next few months we expect PERAC to complete the study and make a recommendation to the Legislature. The MTRB has long supported such an increase in order to provide purchasing power protection for our members. We recognize members' benefits have not kept pace with inflation over the years and an increase in the COLA base will help stave off further erosion in benefits.

While the issue is clear, the solution has been elusive. The expense associated with increasing the COLA base is formidable. A previous study estimated it would cost the Commonwealth over \$25 million a year for each \$1,000 increase in the COLA base. The results of the new study are likely to illustrate similar costs. This year, however, retirement officials, elected officials and retiree advocates have pledged to work together in developing funding alternatives to pay for the increase in the COLA base that are fiscally responsible and acceptable to elected officials. ■